PENGANA CAPITAL GROUP

MONTHLY REPORT
JUNE 2022

PENGANA GLOBAL SMALL COMPANIES FUND

DESCRIPTION

The Fund invests principally in small and midcap listed (or soon to be listed) global equities. Its investment objective is to obtain returns greater than the MSCI All Country World Index SMID Cap unhedged in Australian dollars ('Index') over rolling 3 year periods after fees. The Fund's investment manager, Lizard Investors LLC, uses a value oriented investment approach that seeks to identify and invest in quality businesses that create significant value but are mispriced, overlooked, or out-of-favour. The investment manager believes that unique opportunities exist due to limited available research, corporate actions, or unfavourable investor perception.

STATISTICAL DATA

VOLATILITY[3]	NUMBER OF STOCKS	BETA[4]	MAXIMUM DRAW DOWN
13%	40	0.74	-24.6%

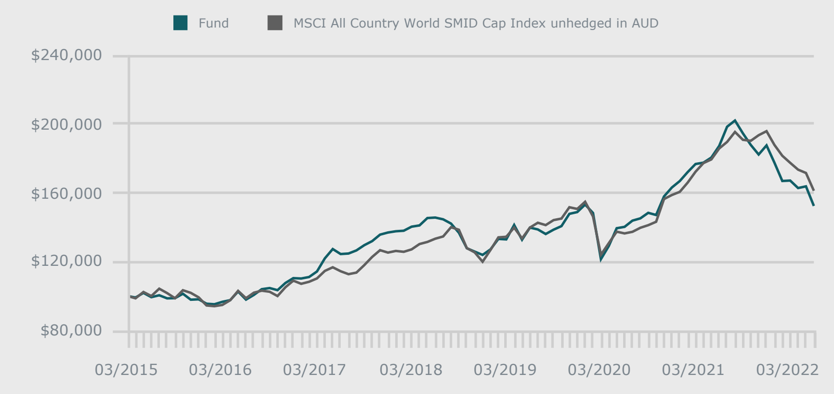
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Jun 2022[1]

	1 MTH	1 YEAR	2 YEARS P.A.	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
Global Small Companies Fund	-6.9%	-18.6%	4.2%	2.9%	4.1%	6.0%
MSCI All Country World SMID Cap Index unhedged in AUD	-6.0%	-13.2%	8.7%	4.9%	7.1%	6.8%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Cogeco Communications	Communication Services
Irish Continental Group PLC	Industrials
Sendas Distribuidora SA	Consumer Staples
Serco Group PLC	Industrials
TietoEVRY Oyj	Information Technology

CAPITALISATION BREAKDOWN

Under 2bn USD	49.5%
In between 2bn - 5bn USD	32.4%
Above 5bn USD	12.7%
Cash	5.4%

REGION BREAKDOWN

Europe ex UK	28.8%
North America	23.7%
Asia ex Japan	12.8%
Japan	7.9%
UK	10.8%
Middle East / Africa	1.6%
Latin America	9%
Cash	5.4%

IF ONE WERE TO TAKE MR. ROTHSCHILD'S ADVICE AND BUY WHEN THERE IS BLOOD IN THE STREETS, THE TIME WOULD CERTAINLY SEEM TO BE NOW.

COMMENTARY

The Fund was down -6.9% in June, slightly underperforming the Index which was down -6.0%.

As of June 30th, the top ten holdings accounted for 41% of the Fund's assets with the largest position at 5.3% of the portfolio.

The Fund continued with limited trading activity this month. We believe the Fund's value is at a meaningful discount to the long-term fair value. The Fund is currently trading at just over 13x earnings on a weighted average basis. The constituents are expected to grow their earnings nicely over the coming years and carry over 20% ROE. We are also continuing to examine many interesting new investment opportunities given the sell-off in the equity markets.

Macro: The second quarter was a very challenging period for the global economy as equity indexes declined sharply, especially in June. At the halfway mark of 2022, the three-headed monster of inflation, rising interest rates, and slowing growth is showing no sign of going away.

Records are falling: 2022 is already one for the record book: inflation in most Western Economies is running at a 40-year high, the S&P 500 is off to its worst start in 50 years, the U.S. consumer sentiment index dropped to a record low in June, the Yen passed the lowest level since Oct. 1998, Europe is seeing a major war for the first time this century, and the EUR/USD is at parity for the first time since the early 2000s, just to name a few.

Currencies: The Fund was negatively impacted not only because of the macro environment but also by the sharp movement of global currencies. At the beginning of the second quarter, we thought that the dollar was poised to weaken given how far out it was against "parity." Yet, the DXY (a measure of the USD against a basket of other currencies) rose a further 6.5% in the second quarter. This phenomenon can partially be explained by investors all over the globe chasing the USD as the only "safe haven" asset.

Liquidity: Liquidity has dried up in many equity markets, impacting small caps meaningfully. We saw that illiquid stocks were hit the hardest this quarter. The over $10bn portion of the MSCI All Country World SMID Index produced an average return of -6.8% while, the sub $1bn portion of the index generated a bloody –17.7%.

Inflation: On June 13th, The Federal Reserve revised its 2022 inflation expectation to "exceed 5%." If this is true, 2022 inflation will be the highest since 1990 (at 5.4%). Currently, the TIPS (Treasury Inflation-Protected Securities) are suggesting that inflation will drop down to just over 3% on a 1 to 2-year basis and fall to 2.5% on a 7-year basis. If this is predictive of inflation in the medium-term, we expect this to surprise investors positively, likely refocusing them on cheap risk assets.

Europe's ills: While raging inflation and slowing growth are both concerning, we think that Europe's dependence on Russia's natural gas will continue to create an overhang for at least the next 6 months. Coal plants are coming back online, however, the capital spending to address the issue should lead to strong economic growth in the region. We would view the likelihood of a recession in the EU as greater than that in the US, however, it's offset by cheaper prices.

Japan's currency: The Japanese govtment's unwillingness to raise interest rates has sent the Yen crashing against many other major currencies. However, we are now starting to see the govt turning more hawkish on this policy which should have a meaningful impact on the Yen. Specifically, two new board members were added to the BOJ who have more hawkish views and will look to reign in quantitative easing.

China's policies: China's strict zero-covid policy practically halted the global economy for a few weeks in April. While the situation has gotten under control, investors' attention is turning toward the threat of rising bad loans.

What does this all mean for us? The Russell 3000 (US small caps) index is trading at 21.6x PE and an estimated 17.7x PE for 2022. Non-US equities, as measured by the MSCI ACWI ex-US, continue to trade at an attractive 12x earnings multiple. For non-US equities, this is in the 20th percentile going back 50 years. Most investors now believe that a recession is the most likely outcome. Pessimism and cash allocation are at their peaks since 2008 and 2001 respectively, as indicated in a recent Bank of America survey. If one were to take Mr. Rothschild's advice and buy when there is blood in the streets, the time would certainly seem to be now. Perhaps Mr. Buffett's advice to be greedy when others are fearful is a less intense, but equally poignant thought. Ironically, analysts' earnings estimates are going *up* in Europe so far in Q2.

Fund Performance and Positioning

For the quarter, stock picking was reasonably good generating positive relative returns when looking at market cap and geography. Asia was a challenging geography for this quarter as Korean small caps were impacted by both the tech and liquidity sell-off. The fundamentals of our holdings continue to be strong in that region. Our heavy weighting towards smaller caps was a meaningful headwind for the quarter. Sub $1bn market caps make up 35% of our portfolio compared to just 6% of the index. Given small caps were most impacted by liquidity concerns, this impacted the Fund negatively. Over a market cycle though, we believe the small-cap portion of the index is where the highest relative and absolute returns can be earned.

Stock Specifics (Top holdings)

- **Serco** is the largest holding and the largest contributor to returns of +1.1% in the second quarter. The company had a strong start to the year and management raised the full-year guidance. The step-downs in covid-related projects are being more than offset by immigration-related projects in the UK and Australia as well as Obamacare in the US.
- **Sendas** is the second largest holding but was a negative contributor to the quarter. 1Q results were strong with double-digit growth in both sales and EBITDA. The two key positives for us were 1) the market share gains as consumers trade down and 2) their ability to pass on higher prices quickly with minimal impact on volume.
- **Cogeco** is another top-5 holding that detracted from the quarter's results. The company is expanding its network at a reasonable return on capital. However, the near-term lower free cash generation was negatively perceived by the market. We believe that sentiment will turn more positive as customer growth accelerates toward the end of the year.

FEATURES

APIR CODE	PCL0022AU
REDEMPTION PRICE	A$ 1.3986
FEES *	Management Fee: 1.1% Performance Fee: 20.5%
MINIMUM INITIAL INVESTMENT	A$10,000
FUM AT MONTH END	A$ 143m
STRATEGY INCEPTION DATE	1 April 2015
BENCHMARK	MSCI All Country World SMID Cap Index unhedged in AUD

FUND MANAGERS

Jon Moog
CIO and Portfolio Manager

David Li
Head of Research and Portfolio Manager

1. Net performance figures are shown after all fees and expenses, and assume reinvestment of distributions. No allowance has been made for buy/sell spreads. Past performance is not a reliable indicator of future performance, the value of investments can go up and down.
2. Inception 1st April 2015.
3. Annualised standard deviation since inception.
4. Relative to MSCI All Country World SMID Cap index unhedged in AUD.

* For further information regarding fees please see the PDS available on our website.

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